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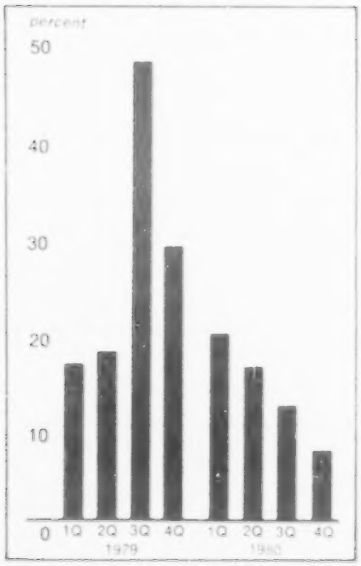
U.S. Export Growth Declines

Although U.S. exports in 1980 were up a substantial 21% from 1979, a look at seasonally adjusted quarterly data indicates that the pace of this growth declined steadily over the course of the year. The slowdown is partly related to the deteriorating competitive position of U.S. exporters—for example, since the fourth quarter of 1979 the average price of German exports in terms of dollars has fallen more than 20% relative to U.S. export prices—but the most important reason for the decline has been the worsened economic performance of the United States' major trading partners, particularly in Europe.

During the period of very strong growth of U.S. exports—first-quarter 1978 to second-quarter 1980—most of the European economies were growing rapidly. In that period, U.S. exports to Europe increased at an annual average rate of more than 40%, and the U.S. share of total exports from the industrialized countries climbed from 16.9% to 18.1%, a significant advance. Since the second quarter of last year, however, U.S. exports to Europe have plummeted, with fourth-quarter 1980 figures some 11% below the second-quarter 1980 level. The falloff in U.S. exports to Europe coincided with the slump in European economic activity beginning in the second quarter of last year. After a strong performance in the first quarter of 1980, the European economy moved abruptly into a recession that now appears likely to exceed in magnitude the downturn of 1974-75, which followed the first OPEC price shock. Real output of the European Economic Community economies in the last quarter of 1980 was down an estimated 2.5% from first-quarter-1980 levels, and the outlook for the first half of 1981 is for further decline.

In these circumstances, even though exports to the rest of the world have held up reasonably well, the rate of expansion of total U.S. exports since mid-1980 has fallen sharply from the levels of the early-1978 to mid-1980 boom period—to about 8%-9% on a seasonally adjusted annual-rate basis. Even so, given the generalized slowdown in world trade, this growth has been sufficient to keep the U.S. share of exports from the industrialized countries relatively stable. Given the current outlook for the performance of the world economy, it seems likely that U.S. exports will grow at about their present subdued pace at least until summer, with some acceleration likely later in the year as inventories are rebuilt abroad. The key uncertainty remains the timing of economic recovery in Europe, and not the strength of the dollar.

U.S. export growth*
(growth over preceding quarter, seasonally adjusted annual rate)



* Census basis (f.a.s.)

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Belgian industry bears brunt of adjustment to higher oil prices.

The burden of Belgium's adjustment to higher oil prices and the concomitant effect on real national income has been in part borne by industry and partly postponed through running a current account deficit. Real wages, on the other hand, have been protected in recent years through indexation. The squeeze on industry has thus resulted in declining profits, investment, and employment. Depressed economic activity and a large current-account deficit have led to urgent calls for a devaluation to improve industry's competitive position. But the authorities have argued that any gain in competitiveness would be short-lived as resulting price rises quickly feed through to wage rates. The preferred course of official policy is to shift some of the adjustment to the personal sector through freezing or limiting index-linked wage increases. Meanwhile, economic and political uncertainty has led to intense speculative pressure on the Belgian franc. To date, the authorities have sought to protect the franc through restrictive fiscal and monetary policy, as evidenced by the National Bank's recent heavy intervention in the exchange markets and by a three-percentage-point boost in the discount rate to 16%.

Spain making progress toward liberalized financial system.

Spain has taken a second, albeit hesitant, step on the path toward liberalizing its domestic financial system. The restrictive regulations covering interest rates have been lifted on rates for deposits over six months and on all loans. Also, banks have been freed of dividend controls. Savings banks now face the same regulations as commercial banks, and clear-cut rules have been established regarding commissions. However, the system of required low-interest investments—"privileged circuits"—remains, and until this is removed Spanish financial markets cannot be considered fully liberalized. Otherwise, there is little to be optimistic about on the Spanish economic scene. This year's drought will inhibit agricultural production, and recent political developments have weakened business confidence. In the face of a continuing balance-of-payments deficit, the peseta has slipped in line with the German mark. Although this will make Spanish exports more competitive, it will heighten inflationary pressures.

Persistent Icelandic inflation continues to cause problems for the krona.

Continued inflation has so eroded the value of the Icelandic currency that in January of this year the government introduced a new krona with a value equal to 100 old krona. Inflation continues to run at an annual rate of around 50%. And despite the imposition of a price freeze and an attempt to reduce the extent of wage indexation, the price level in December 1981 is expected to be some 40% above where it stood at the end of 1980. This has forced the authorities to depreciate the krona on the foreign exchanges. The most recent decline was announced in mid-February, when the krona was devalued by 3.7%. The recent strength of the U.S. dollar has also caused some problems for the authorities, and the central bank has now reverted to controlling the krona against a basket of currencies instead of solely against the dollar. Aside from its inflation problems, the Icelandic economy appears reasonably healthy. The fishing industry is still experiencing strong export demand, and in contrast with many other OECD members, Iceland's GDP is still expected to grow this year.

Argentine peso devalued to spur domestic and external economy.

The 22.7% devaluation of the Argentine peso on April 3 is part of a set of new economic measures instituted by the incoming administration of President Viola. The purpose of the latest package is to spur exports and domestic production, which had been declining prior to the announcement of the devaluation. Previously, the Argentine currency had been under considerable market pressure, and reserves were lost as perceptions spread that the peso was overvalued. Along with the devaluation, the government has indicated that the peso will go on a managed float with monthly devaluations of approximately 2%. To moderate the inflationary impact of the recent and future devaluations, tariffs are being reduced to 43% from 55%, export rebates and taxes are being modified to restrain domestic food costs, and the fiscal deficit is being limited.

Brazilian trade position improves.

Brazil's foreign trade deficit for the January-February period totaled $260 million, as against $891 million for the year-earlier period. Annualized, the deficit for 1981 would total $1.5 billion, well below the $2.8-billion deficit for all of 1980. The reasons for the improved trade showing in 1981 are strong exports and slackening non-oil imports. Coffee export receipts for January-February 1981 were more than double their level in 1980, and other export earnings were up 22%. The oil import bill was larger because of price rises, but non-oil imports were down by more than $200 million. A softening economy and the drawdown of primary goods inventories have been major causes of the fall-off in non-oil imports. If these favorable trends are sustained throughout 1981, Brazil could meet its target of a trade balance ranging between plus or minus $1 billion.

Broad-based industrial expansion bolsters Jordanian economy.

Jordan completed the final year of its 1976-80 five-year plan with a sound economy and is now set to commence a soon-to-be announced 1981-85 plan. Economic performance in 1980 was led by an exceptional industrial production growth rate of 44%. Much of this was due to an increase in phosphate production to 3.9 million tons from 2.8 million tons in 1979. In addition, there was a broad-based expansion in manufacturing output in response to buoyant demand from both Iraqi and domestic sources. Progress was also achieved in the financial sector. Inflation was reduced to 11.1% from 14.2%, and the average growth of the money supply (M2) was cut to 23.6% from 29.7% in 1979. Aid grants last year, which remain critical to Jordan's economic health, are estimated to have continued at 1979 levels, at about $1 billion. The new five-year plan is expected to call for a continuation of high growth—more than 10% annually. Industrial expansion is planned to lead economic growth again. A decline in the trade deficit is also envisaged. Furthermore, the government's current deficit is expected to be eliminated by the end of the plan period. On the assumption that regional political divisions do not re-emerge, the plan targets appear attainable.

Bangladesh heavily dependent on foreign aid, but agricultural rebound likely to spur growth.

The dominant influences on the performance of the Bangladesh economy continue to be changes in foreign aid levels and the weather. A shortfall in aid disbursements for fiscal 1981 (ending June 30) led to a sharp drop in reserves in calendar 1980. The three-year IMF loan of 800 million SDRs announced in December resolved the country's balance-of-payments crisis temporarily. However, questions remain concerning how long aid inflows, even coupled with IMF credit, will be sufficient to cover the balance-of-payments funding gap implied by the government's development objectives. Although the balance-of-payments problem has worsened, the domestic economic situation has improved, thanks to favorable growing conditions in the agricultural sector. Foodgrain production in fiscal 1981 is projected at a record 13.8 million tons, and, as a result, real economic growth is expected to rebound to the 7%-9% range. But inflation, now forecast at 12%-13% for the fiscal year, could become increasingly troublesome without tighter constraints on the growth of the government deficit and central bank credit to the government.

Zinc demand expected to show little change in 1981.

The course of zinc prices in 1981 will be affected only slightly if the U.S. Treasury shifts from copper to zinc in the production of the U.S. penny. The production of a zinc penny in the United States would increase total zinc demand by little more than 1% during the first year of production of the new coin; world demand could be boosted further as other countries are also considering switching to zinc coins. Barring a shift to the zinc penny this year, demand is likely to be unchanged from last year, owing to weakness in the construction and automobile industries associated with the worldwide economic slump. Supply, however, is anticipated to grow more than 2% after decreasing by over 5% last year. Inventories are thus expected to expand this year after declining in 1980. Zinc prices in 1981 are likely to average 36¢-40¢ per pound—considerably below average total costs—with or without the introduction of the zinc penny.

A Misdirected Proposal on Money Reporting

The Federal Reserve Board recently announced that it is considering changing its procedures for reporting weekly money supply figures. Prompting the proposal were concerns about both the significance of the weekly money numbers and the financial markets' reaction to them. Federal Reserve Chairman Paul Volcker noted, however, that the Board is uncertain whether any benefits would be derived from the alternative reporting procedures being considered, or if any such benefits would outweigh the costs.

It is well recognized that the weekly seasonally adjusted money supply figures are subject to wide random fluctuations—that is, movements unrelated to changes in trend money growth. Since Federal Reserve policy decisions are affected by movements in the money supply relative to the Fed's targets, unexpected weekly money supply changes often cause sizable movements in interest rates, as financial market participants revise their expectations of future money growth and interest rates. Some observers have suggested that financial markets are prone to "overreact" to these inherently volatile money numbers, thereby causing "unnecessary" fluctuations in interest rates. A number of proponents of this view argue that the weekly money numbers—which are preliminary and subject to revision—contribute to instability in financial markets.

One change the Federal Reserve is considering as a means of reducing this volatility is to delay publication of the money supply numbers an additional seven days to incorporate data not available when the preliminary money numbers are released. The rationale is that revisions to weekly money numbers would be reduced. But this option would have a limited effect on the volatility of the money numbers, as weekly revisions are usually relatively small. Moreover, market participants would still attempt estimates of the weekly money supply using available data. It is not clear, and indeed improbable, that this option would reduce interest-rate volatility.

A second option being considered is publishing only money numbers not adjusted for seasonal forces, to reduce the "importance" of the money numbers. If this option were implemented, however, market participants would construct their own seasonal factors, as well as estimate how the Federal Reserve is adjusting the money supply for seasonal effects. This could heighten market confusion.

Yet another change being considered is publishing the money figures only on a monthly basis, and/or publishing weekly figures only on a moving-average basis. This change would not keep market participants from constructing estimates of weekly money numbers from available data, however. Moreover, providing markets with data only monthly could cause even wider swings in interest rates, with market apprehension and uncertainty becoming quite pronounced just prior to the release of monthly money supply numbers.

Perhaps the most distressing aspect of all of these options is that they involve providing the financial markets with *less* information than is currently available. Already, the Federal Reserve keeps market participants in the dark regarding both the prevailing trading range for the federal funds rate and the growth targets for various bank reserves measures. For example, it was not until early April that the Federal Reserve released the minutes of the *February* Open Market Committee meeting—in which the 15½–20% target range for the federal funds rate in effect in February was announced, and in which no targets for bank reserves were divulged.

It is this *lack* of information regarding the targets for the instruments of Federal Reserve policy, combined with the statements of Federal Reserve officials regarding the importance of the behavior of the money supply in policy formulation, that causes financial markets to be so sensitive to the weekly release of money numbers. Market participants make estimates of what the Fed plans to do and what effect its actions will have on interest rates. Historically, even short-run deviations of money growth from target have had a significant impact on the federal funds rate. In fact, a number of economists have noted that under a nonborrowed reserves targeting strategy—such as the one purportedly in practice since October 6, 1979—unexpected changes in the money supply, whatever the cause, tend to be translated quickly into changes in the federal funds rate.

Thus, it is not the irrational response of financial market participants to weekly money supply numbers that is behind the recent volatility of interest rates. Rather, the current operating strategy of the Federal Reserve, combined with the paucity of information available to the market concerning the Fed's short-run objectives, causes the money numbers to have such large effects on financial markets.

Rather than giving the market less information, perhaps the Federal Reserve should shift gears and provide the market with *more* information. If market participants knew, for instance, what the reserves-supplying objectives of the Federal Reserve were, when (and why) the Fed was allowing the path of reserves to deviate from these objectives, what the target range for the federal funds rate was, what behavior of the money supply/reserves/etc. would cause the Fed to change its policy stance, and what decisions were reached at monthly Open Market Committee meetings *immediately* after each meeting—then the market response to weekly money numbers would probably be less severe, and would certainly be less prone to "overreaction."

As it stands now, however, the fact that markets at times react violently to weekly money numbers is not an indictment of the method in which money numbers are reported, but—if anything—a reflection on the conduct of monetary policy itself. *Thomas A. Lawler*

Asia and Oceania — Bimonthly Survey of Business and Finance

COUNTRIES	CURRENT BUSINESS CONDITIONS	EXPORTS		GNP IN 1979		BALANCE OF PAYMENTS						MONEY AND BANKING							COUNTRIES
												12-month changes				exchange rate	change from		
		6 months ending	12-month change	in billions of dollars	per capita	latest data	reserves (less gold) in million $	12-month change	months of imports covered	use of IMF credit, millions of dollars	current influences on payments	latest data	consumer prices	latest data	money supply(M1)	in U.S. dollars	year earlier	current monetary conditions	
												April 8, 1981							
Asia																			
Bangladesh	Real GDP growth of 7%-9% possible in fiscal 1981, owing to rebound in agriculture.	Oct.	+ 2%	13.7	$ 160	Feb.	316	– 30%	1.4	310	Slower-than-expected shift to domestic natural gas keeps oil imports high.	Dec.	+ 13%	Oct.	+ 17%	.0650	– 2%	Tighter monetary policy likely under IMF program.	Bangladesh
Burma	Real GDP rising at 6% rate, owing mainly to progress on agricultural front.	Dec.	+ 16%	5.0	154	Feb.	262	+ 11%	11.5	33	External debt and debt service rise rapidly.	Oct.	– 3%	Sept.'79	+ 14%	.1500	– 1%	Free-market premium on kyat declines.	Burma
China, People's Republic	Revised 1981 budget cuts investment more than 40% with cancellation of major projects.	Dec.	+ 20%	517.0	510	Sept.	3,615	+ 13%	2.7	456	Trade deficit in 1980 reduced to only $500 million.	n.a.	—	—	—	.6100	– 10%	Money supply growth restricted to control inflation.	China, People's Republic
Hong Kong	Boom cooling as real estate and stock market prices decline.	Nov.	+ 26%	17.6	3,320	n.a.	—	—	—	—	Exports decline moderately in reaction to recession in OECD markets.	Nov.	+ 15%	Nov.	+ 22%	.1880	– 6%	Interest rates expected to follow U.S. rates down.	Hong Kong
India	Fiscal 1981/82 budget cuts taxes and provides new incentives for investment.	Nov.	– 11%	126.3	194	Nov.	7,215	– 3%	6.6	325	Customs duties increased to raise revenue and discourage imports.	Dec.	+ 9%	July	+ 2%	.1215	– 4%	Interest rates raised to promote savings.	India
Indonesia	Many local industries benefit from oil and gas boom.	May	+ 61%	47.1	317	Jan.	5,993	+ 127%	7.9	0	Non-oil exports soften in response to recession in major markets.	Jan.	+ 17%	Oct.	+ 49%	.00160	0	Central bank maintains lid on bank credit.	Indonesia
Japan	Consumer spending and residential construction continue weak, but investment stays firm.	Jan.	+ 32%	1,011.1	8,726	Feb.	26,170	– 31%	2.2	0	New products and markets blunt impact of OECD recession and protectionism.	Feb.	+ 7%	Jan.	+ 2%	.00468	+ 18%	Monetary policy relaxed to spur economic activity.	Japan
Korea	Difficulties encountered in auto merger; rationalization plan for other industries in doubt.	Nov.	+ 15%	60.1	1,598	Feb.	2,771	– 1%	1.5	828	Revival of exports slowed by U.S. and European recessions.	Jan.	+ 32%	Jan.	+ 16%	.00151	11%	Won depreciation less than 3% in last six months.	Korea
Malaysia	Business profits increase; government presses efforts to expand Malay share of equity.	Oct.	+ 12%	19.4	1,457	Dec.	4,387	+ 12%	4.8	0	Trade balance favorable; interest-rate differential causes outflow of capital.	Dec.	+ 7%	Dec.	+ 15%	.4343	– 1%	Domestic liquidity reduced by outflow of funds.	Malaysia
Pakistan	IMF program improves climate for private-sector activity.	Nov.	+ 11%	23.0	288	Feb.	641	– 14%	1.4	330	Foreign direct investment spurred by export processing zones.	Dec.	+ 16%	Dec.	+ 18%	.1020	– 1%	Restrictive monetary policy likely under IMF program.	Pakistan
Philippines	Low copra export prices and higher petroleum import product prices depress business activity.	Oct.	+ 20%	29.9	627	Feb.	2,506	+ 9%	3.4	814	Current-account deficit will increase in 1981 unless commodity prices recover.	Jan.	+ 14%	Dec.	+ 20%	.1335	0	Central bank prepares to lift most interest-rate ceilings.	Philippines
Singapore	Led by financial sector, oil services, and shipbuilding, economy sustains rapid growth.	Dec.	+ 25%	8.9	3,790	Nov.	6,523	+ 15%	3.1	0	Current-account deficit widens as oil bill climbs.	Jan.	+ 6%	Nov.	+ 11%	.4765	– 7%	Government reorganizes Monetary Authority.	Singapore
Sri Lanka	Government expenditure slashed further in attempt to control budget deficit.	Nov.	+ 3%	3.3	226	Feb.	220	– 53%	1.3	257	Trade deficit could exceed $1 billion in 1981.	Nov.	+ 24%	Nov.	+ 24%	.0575	8%	Greater control over budget will reduce money supply growth.	Sri Lanka
Taiwan	Textiles, garments, other export industries suffer declining sales in recession-affected markets.	Nov.	+ 19%	32.2	1,716	n.a.	—	—	—	—	Trade account will show substantial deficit in 1981.	Dec.	+ 22%	Nov.	+ 23%	.0290	0	Thirteen new foreign bank branches spur competition.	Taiwan
Thailand	Investors shaken by early April coup attempt, but normal activity has resumed.	Dec.	+ 12%	27.3	591	Feb.	1,449	– 23%	1.8	154	Balance of payments adversely affected by government energy policies.	Dec.	+ 16%	Oct.	+ 14%	.0505	– 3%	Baht exchange rate firm despite political troubles.	Thailand
Oceania																			
Australia	Strong capital and consumer spending buoy economy.	Dec.	+ 10%	119.1	8,260	Feb.	2,016	+ 9%	1.0	76	Strong capital inflow more than offsets widening current-account deficit.	Dec.	+ 9%	Dec.	+ 17%	1.1575	+ 6%	Slower money growth favors lower inflation, interest rates.	Australia
New Zealand	Taxes cut to offset fiscal drag and to stimulate weak consumer spending.	Dec.	+ 16%	20.9	6,730	Feb.	408	– 20%	0.9	147	Recovery in import volume and slower export growth expected in 1981.	Dec.	+ 16%	Jan.	+ 10%	.9100	– 4%	Monetary policy continues restrictive.	New Zealand
Papua New Guinea	Government projects real GDP growth of 2% each year until 1985.	July	+ 14%	2.3	740	Feb.	395	– 24%	4.5	6	Price trends continue unfavorable for major exports.	Sept.	+ 12%	Jan.	+ 2%	1.5150	– 7%	Exchange-rate revaluation policy increasingly criticized.	Papua New Guinea

World Interest Rates

market rates of Apr. 8, 1981; bond yields as of Apr. 3, 1981

in percent per annum	U.S.	Canada	Britain	Belgium	France	Germany	Italy	Netherlands	Switzerland	Japan
Central Bank Discount Rate	13.00 penalty-large banks 16.00	16.74	12.00	16.00	9.50	7.50	19.00 penalty rate 22.00	9.00	4.00	6.25
Day-to-Day Money	15.00 Apr. 9	18.25	13.00*	18.00	12.25	12.00	19.75	10.00	3.50†	7.375
Treasury Bills 91-day, Middle Rates	13.67	16.70	11.75*	17.25	13.85 one year	n. a.	17.047 90-day	no dealing	no market	5.625 two-month
Commercial Paper prime, 3-month, asked	13.50 finance paper	17.05 finance paper 15% tax w/h	11.46*	15.90 Certified	13.375 Interbank	no market	no market	no market	no market	not traded
Bankers' Acceptances 3-month, asked	13.85	17.05 15% tax w/h	11.75*	15.90 Certified	not traded	9.90	22.80	no market	4.50†	no market
Government Bonds Long-term, new and old issues, average yield	13.19	14.375	13.12	10.83 20% tax w/h	14.20	9.96	18.06	11.15	5.47†	7.752
Industrial Bonds prime, long-term, new and old issues, average yield	13.70 Aa Industrials	15.00	14.31	18.42	15.37	10.17	18.54	11.89	6.2375†	7.05
Bank Short-Term Rate to Best Borrowers (prime rate)	17.00	17.75	13.00	19.25	14.35	13.75	22.50 ⅛ quarterly fee on outstdng	12.00	7.00†	6.75
Bank Time Deposits 3-month	14.25 Cert. of Dep	16.80	12.50*	17.25	13.375	13.25	10.75	10.625 large deposits	7.625† residents only	5.00 20% tax w/h
Eurocurrencies 3-month, asked	15.5625	no market	12.25	no market	13.8125	12.0625	no market	10.50	8.3125	no market
Exchange Rates—in U.S.$ rates floating against the $	—	.8428	2.1880	.02867	.1986	.4672	.000940	.4226	.5123	.004678
Forward Exchange Cover 3-month, in percent p.a. *D* = discount, *P* = premium	—	2.625 *D*	3.375 *P*	5.125 *D*	1.75 *P*	3.00 *P*	4.375 *D*	2.50 *P*	6.625 *P*	7.50 *P*

Eurodollar Deposits
(London, interbank, bid)
April 8

7-day	12.75
1-month	14.4375
3-month	15.3125
6-month	15.125

International Arbitrage
(3-month, hedged) + *in favor of U.S. dollars*

U.S.-U.K. Treasury Bills	n. a.
U.S.-Canada Treasury Bills	+.471
U.S.-Canada Finance Co. Paper	−.691
Eurodollars-U.K. Local Auth. Deposits	n. a.

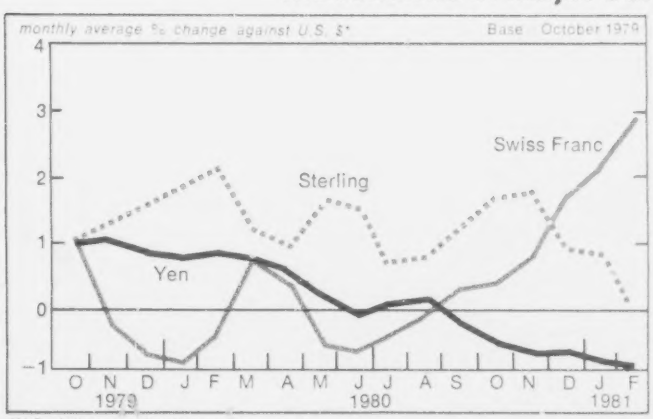
Eurobonds
(average yield on recent straight debt issues)

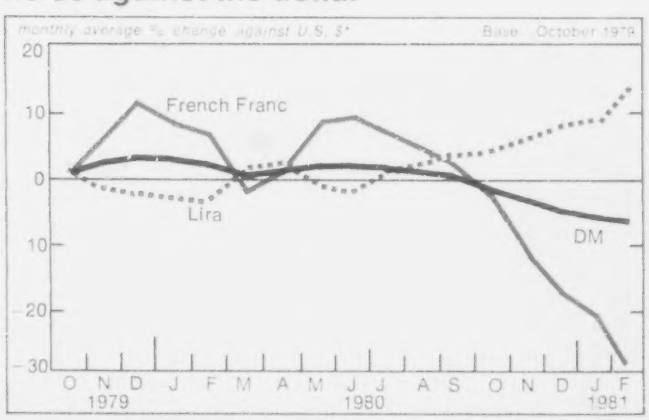
U.S. Dollar Bonds	
7 yrs. and under	14.50
Over 7 yrs.	14.25
DM Bonds	
7 yrs. and under	10.25
Over 7 yrs.	10.125

Gold Price
London afternoon fixing
508.50
(per fine ounce)

The above interest rate quotations refer to the past week and may not be construed as offers by The Chase Manhattan Bank. The quotations for Bank Short-Term Rate to Best Customers, while including customary commissions, reflect neither possible other fees nor varying compensating balance requirements.
* Market rates as of March 25; bond yields as of March 20. † Market rates as of April 1; bond yields as of March 27.

Movements of major currencies against the dollar





*U.S. dollars per foreign currency units

Tunisian Economy on Right Track

Tunisia's economic growth rate has been impressive in recent years, averaging about 7%, on an inflation-adjusted basis, between 1977 and 1980. The economy's strengths have included high investment, fiscal moderation, improving terms of trade—particularly for exports of crude oil—access to substantial foreign aid, good external debt management, and relative socio-political stability. These have left Tunisia with plentiful reserves of foreign exchange, manageable current-account deficits, and a low external debt service ratio.

The North African country, however, remains vulnerable in some areas. Tunisian agricultural production is still highly dependent on the capriciousness of the weather, and this, coupled with a rapid population growth rate, points to the continued need for large food imports and periodic shortfalls of agricultural exports. Moreover, in the absence of new discoveries of large oil fields, declining crude oil production combined with rapidly rising domestic consumption and imports could make Tunisia a *net* oil importer as early as 1985. Furthermore, the growth of remittances from workers located abroad is slowing as a large number of Tunisians return from Europe and Libya. And restrictions on imports by an enlarged European Economic Community could limit the expansion of Tunisia's agricultural commodities and manufactures.

Recent economic performance

The domestic economy turned in a favorable performance in 1979, with real GDP advancing 6.9%. The driving forces were strong export growth—both of goods and services—and an acceleration in the rate of overall fixed investment. Merchandise exports, which consisted mainly of crude oil and textiles, soared by 69% in 1979. Investment rose 10% in real terms, reaching a level equivalent to 30% of nominal GDP. Significantly, the share of total investment financed by the central government declined, indicating an increased private-sector role. The authorities' conservative monetary management, as reflected in the reduction of money supply growth to 16% from 20% in 1978, contained the rise in the official consumer price index to 7.8% in 1979. That rate of inflation was up slightly from the previous year because the government raised the prices of some basic food items and decontrolled others to limit the growth of a food subsidy bill that accounted for 11% of budgeted outlays in 1979.

On the external front, Tunisia's trade deficit widened to $922 million from $874 million in 1978. The 69% jump in merchandise export earnings was more than offset by large increases in imports of energy and agricultural commodities. A more-than-doubling of services earnings, however, narrowed the current-account gap to less than $300 million, and heavy capital inflows gave Tunisia a balance-of-payments *surplus* of $102 million in 1979.

The 6.9% pace of inflation-adjusted economic growth is estimated to have been sustained in 1980, largely on the strength of exports. The official target of 8.1% was missed because of smaller-than-projected rises both in government investment and in the output of major sectors of the economy.

Total investment rose only about 0.5% in real terms last year, because of shortfalls in public-sector capital formation. The reduced public-sector role stemmed from the government's deliberately delaying the implementation of several major projects. The delays reflect the authorities' increasingly cautious management of the public investment program, which is aimed at maximizing long-term benefits to the economy. The short-term trade-off, however, was the creation of fewer new jobs than had been targeted to help absorb the rapid labor force expansion. The workforce's fast growth is the product of a 2.7% annual population increase, the greater participation of women, and the return home of a growing number of Tunisians from abroad—particularly from Libya with whom relations are still strained following the January 1980 Libyan-sponsored terrorist attack on the phosphate-mining town of Gafsa.

MAIN ECONOMIC INDICATORS

	1978	1979	1980 est.
Nominal GDP ($ million)	5,954	6,981	8,200
Real GDP growth, %	8.9	6.9	7.0
Investment as % of GDP	29.2	30.2	29.0
M2 growth, %	20.0	16.0	16.0
Inflation rate, %*	6.2	7.8	9.0

*Annual rate of change in the official CPI

The slow growth in investment last year was accompanied by only a slight increase in agricultural output, a slowdown in manufacturing, and the beginning of a downtrend in the production of crude oil. Crude output fell 6% to 5.2 million tons last year, after peaking at 5.5 million tons in 1979. Phosphate rock and fertilizer output, however, rose significantly.

In keeping with the strategy of 1979, public-sector activity eased further and monetary management remained cautious. Money supply growth approximated the 1979 rate, and a sharp decline in net bank claims on the government more than offset the rise in net foreign assets and the faster growth of credit in the

Tunisian Economy on Right Track

private sector. The rate of inflation, however, r
mated to have crept up to 9%-10% from 7.8% in
A main reason once again was higher prices for
foodstuffs aimed at limiting the size of the g
ment's subsidy bill.

The external economy held its own in 198
fueled much of the domestic growth, althoug
performance was weaker than in 1979. Mercha
exports were up some 30%. Oil export volume fe
certain foodstuff exports were down, but phos
exports climbed steeply. Nonetheless, growth
ports (particularly of energy and food) outpace
of exports, a trade deficit of $1.0-$1.1 billion is
mated for last year, with a current-account g
$300-$400 million. The overall balance-of-pay
surplus is estimated to have shrunk to aroun
million.

The 1981 outlook

Although the government projects real GDP g
to drop to 6.7% this year, it is more likely to r
around 7%. Oil production is expected to fall f
and expansion of tourism is likely to be modes
investment spending by the government is bud
to rise, and continued ouput and export gains ar
for phosphates. Also, prospects for some agricu
crops are favorable.

The domestic economy will receive an added
this year because of more expansionary fisca
monetary policy. Central government expenditur
projected to rise 18% over 1980, and both publi
private investment are set to climb substantially
priority areas in the 1981 budget are agricultur
fisheries, industry, and national defense. Mo
growth will accommodate the higher level of p
sector activity; the money supply is forecast to e
by around 18%. As a result of these added sti
and the likelihood of further basic foodstuff
rises—the consumer price inflation rate is lik
climb by one or two percentage points.

BALANCE OF PAYMENTS
(millions of dollars)

	1979	1980 est.
Trade balance	−922	−1,050
Current-account balance	−298	− 350
Capital inflow	400	365
Overall balance	102	15
Foreign-exchange reserves	579	590

For the external economy, a widening in the c
account gap to some $450 million is expected. T

(continued from page 7)

sons include slower growth in net oil exports and reduced worker remittances and tourism receipts, coupled with increased imports of capital goods and production inputs. But a continued large inflow of foreign official credits and a higher level of foreign direct investment—stimulated by legislation aimed both at boosting foreign investment and disbursing it geographically—should easily offset most of this gap.

Tunisia's favorable external-debt position stems largely from the fact that the lion's share of its debt is owed to official lenders on concessional terms. Indeed, publicized capital-market borrowing (mostly in the Euromarket) has fallen steadily since 1978, totaling only $12 million during the first half of 1980. Fully 67% of the $2.8 billion in total outstanding and disbursed debt as of December 1979 was owed to foreign governments and international organizations. The debt service relative to current-account receipts was a comfortable 11%. External debt last year is officially estimated to have climbed to $3.1 billion, but the debt service ratio rose only slightly—to 11.1%. External debt is officially forecast to reach $3.4 billion by end-December 1981, with the debt-service ratio expected to rise only marginally to 12.3%.

Outlook over the longer term

Tunisia's growth pace of the past few years is likely to continue for much of the 1980s. The economy's emphasis on investment, its conservative fiscal management, and its well-balanced development programs point to sustainable growth in the medium term, assuming continued sociopolitical calm. The country's current-account deficit is expected to widen over the next few years because of rising food imports, falling oil exports, reduced remittances, and uncertain prospects for agricultural exports—combined with an ambitious investment program as part of the sixth development plan (1982-86).

Tunisia may need to resort more frequently to the international capital market than it has in the past five years to finance its future current-account deficits. But its dependence on such sources should not prove excessive, given the strong likelihood of a continued large inflow of official foreign assistance, mostly on concessional terms. More significantly, larger inflows of foreign private investment are highly probable, and direct investment from Arab oil-producing countries will grow substantially. In addition, the government plans to spur export promotion and import substitution in all major sectors, give priority to expanding agricultural output, and step up exploitation of natural gas reserves.

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